

Message Text

CONFIDENTIAL

PAGE 01 KHARTO 02221 01 OF 03 161206Z
ACTION AF-10

INFO OCT-01 NEA-11 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 SS-15 STR-07 CEA-01
SSO-00 INRE-00 NSCE-00 ICAE-00 ABF-01 DODE-00
PM-05 H-01 L-03 PA-01 AGRE-00 OES-07 /102 W
-----111753 161309Z /72

O R 161112Z MAY 78
FM AMEMBASSY KHARTOUM
TO SECSTATE WASHDC IMMEDIATE 7373
INFO AMEMBASSY ABU DHABI
AMEMBASSY CAIRO
AMEMBASSY JIDDA
AMEMBASSY KUWAIT

C O N F I D E N T I A L SECTION 1 OF 3 KHARTOUM 2221

E.O. 11652: GDS
TAGS: EFIN, EAID, ECON, SU, US
SUBJECT: FORMAL SUDANESE GOVERNMENT REQUEST FOR BALANCE OF
PAYMENTS ASSISTANCE

REF: (A) KHARTOUM 2198 (NOTAL), (B) KHARTOUM 1828 (NOTAL),
(C) KHARTOUM 2182

1. SUMMARY: AMBASSADOR, ACCOMPANIED BY AID DIRECTOR AND
ECON CHIEF, MET ON MAY 15 WITH MIN FINANCE OSMAN HASHIM
AND MIN STATE FOR FOREIGN AFFAIRS FRANCIS DENG AT THEIR REQUEST.
AS EXPECTED, THE 90-MINUTE MEETING WAS PRIMARILY DEVOTED TO
SUDAN'S CURRENT BALANCE OF PAYMENTS PROBLEMS. GOS FORMALLY
REQUESTED U.S. BALANCE OF PAYMENTS ASSISTANCE. END SUMMARY.

2. AFTER INTRODUCTORY COURTESIES, MINFIN SAID THAT GOS
APPRECIATED THE INTEREST AND CONCERN THAT USG HAD DEMONSTRATED
IN SUDANESE ECONOMIC QUESTIONS. HE WELCOMED THIS INTEREST
AND SAID THAT IT SHOULD BE ANORMAL PART OF OUR BILATERAL
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PAGE 02 KHARTO 02221 01 OF 03 161206Z

RELATIONSHIP. HE DESCRIBED THE CONSTRUCTIVE ECONOMIC
PROGRAM THAT SUDAN HAS BEEN FOLLOWING FOR SEVERAL YEARS.
HOWEVER, HE EMPHASIZED THAT ECONOMIC AND SOCIAL
DEVELOPMENT WERE CLOSELY INTEGRATED AND THAT THE LATTER
WERE ALSO COMPLEMENTARY TO AND DEPENDENT UPON SUDAN'S
POLITICAL DEVELOPMENT. IN THE POLITICAL SPHERE, THESE
PROGRAMS HAVE HAD VERY SIGNIFICANT RESULTS INCLUDING

INCREASED STABILITY, DOMESTIC RECONCILIATION, AND IMPROVED RELATIONS WITH SUDAN'S NEIGHBORS. INTERNATIONALLY, SUDAN'S POLICIES HAVE BEEN CLEARLY STATED.

3. MINFIN CONTINUED THAT THE SOCIAL DEVELOPMENT COULD NOT BE DIVORCED FROM THE RAPID IMPLEMENTATION OF THEIR DEVELOPMENT PROGRAMS. HE IMPLIED THAT ARAB INVESTORS AND DONORS HAVE BEEN SLOW IN RECOGNIZING SOCIAL REQUIREMENTS ARISING FROM PROJECTS THEY HAVE FUNDED. THERE IS NO NEAT ARITHMETIC TO COMPUTE THE NATURE OF THESE SOCIAL COSTS, BUT IT IS CERTAIN THAT THESE PROJECTS HAVE INCREASED DEMANDS UPON GOS BUDGETARY RESOURCES AND ALSO INCREASED IMPORT REQUIREMENTS. IN SHORT, SUGAR FACTORIES AND OIL SEED MILLS MUST HAVE SCHOOLS, MEDICAL CLINICS AND BE PROVIDED WITH ADDITIONAL SERVICES. THESE ARE SUBSTANTIAL DEVELOPMENT COSTS BEYOND THOSE IMAGINED BY SUDAN'S BENEFACTORS. FURTHER, THERE IS A VERY SIGNIFICANT TIME LAG BEFORE THE BENEFITS OF SUCH INVESTMENT PROJECTS ARE FELT BOTH BY PEOPLE DIRECTLY INVOLVED IN THE PROJECTS AND BY THE WHOLE ECONOMY.

4. MINFIN SAID THAT GOS IS PRESENTLY "TAKING STOCK" OF CURRENT ECONOMIC CONDITIONS AS THEY PROCEED THROUGH BUDGET EXERCISE FOR FISCAL YEAR 1978-1979 WHICH BEGINS ON JULY 1. THEY WISH TO MAINTAIN PRESENT MOMENTUM OF DEVELOPMENT IN SUDAN'S ECONOMY. HOWEVER, THEY NOW RECOGNIZE THAT IN ORDER TO CONTINUE, THEY NEED TO PUMP IN ADDITIONAL

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PAGE 03 KHARTO 02221 01 OF 03 161206Z

RESOURCES. THEIR REQUIREMENT IS NOT FOR FINANCING ADDITIONAL SPECIFIC PROJECTS. THEY NEED RESOURCES TO SUPPORT THE TOTAL DEMANDS OF THE ECONOMY. MINFIN HOPED USG WOULD AGREE WITH THIS ANALYSIS OF THEIR REQUIREMENTS AND WOULD BE WILLING TO PROVIDE SUDAN WITH BOP ASSISTANCE. SUCH ASSISTANCE COULD ASSUME A NUMBER OF FORMS; COMMODITY LOANS, FACILITIES FOR CENTRAL BANK, AND ARRANGEMENTS FOR COMMERCIAL BANK CREDIT ROLL OVERS.

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PAGE 01 KHARTO 02221 02 OF 03 161213Z
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O R 161112Z MAY 78

FM AMEMBASSY KHARTOUM

TO SECSTATE WASHDC IMMEDIATE 7374

INFO AMEMBASSY ABU DHABI

AMEMBASSY CAIRO

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

C O N F I D E N T I A L SECTION 2 OF 3 KHARTOUM 2221

5. THE AMBASSADOR REPLIED THAT WE HAD BEEN FOLLOWING ECONOMIC DEVELOPMENTS CLOSELY AND HAD REPORTED THEM IN CONSIDERABLE DETAIL TO WASHINGTON. HOWEVER, UNTIL THIS MEETING THERE HAD BEEN NO FORMAL REQUEST FOR ASSISTANCE. IN A VERY PRELIMINARY MANNER, AMBASSADOR SAID WASHINGTON MIGHT BE SYMPATHETIC TO A REQUEST OF THIS NATURE, BUT THAT MANY QUESTIONS MUST BE ANSWERED AND THAT THERE ARE DEFINITE LIMITS ON WHAT WE CAN DO AND WHAT IS AVAILABLE. CURRENT NEGOTIATIONS WITH IMF ARE A FACTOR IN OUR THINKING. ALSO, WE HAVE NOT BEEN OFFICIALLY INFORMED OF THE PRECISE MAGNITUDE OF SUDAN'S CURRENT PROBLEMS OR THE NATURE OF FINANCIAL COMMITMENTS MADE BY OTHER ARAB STATES.

6. MINFIN REPLIED THAT NEGOTIATIONS WITH IMF HAVE BEEN GOING ON FOR SOME TIME AND THAT NORMALLY IT IS NOT CUSTOMARY TO DISCUSS IMF AGREEMENTS AMONG GOVERNMENTS PRIOR TO FINAL AGREEMENT. REACHING IMF AGREEMENT PROBABLY WOULD ENABLE OTHER ARABS TO SPEED UP THEIR EFFORT TO SUPPORT SUDAN'S ECONOMY. HE ASKED WHETHER AN U.S. BOP
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PAGE 02 KHARTO 02221 02 OF 03 161213Z

ASSISTANCE WOULD BE CONDITIONED ON AN IMF AGREEMENT OR ON AN IMF AGREEMENT PLUS COMMITMENTS FROM OTHER ARAB COUNTRIES FOR BOP SUPPORT.

7. MINFIN STRESSED THAT ON THEIR OWN, SUDANESE HAVE EMBARKED ON AN ECONOMIC AND FINANCIAL REFORM PROGRAM WHICH THEY BELIEVE WILL BE VERY BENEFICIAL. THEY ARE REORDERING THEIR PRIORITIES, CUTTING ANY NON-ESSENTIAL EXPENDITURES AND CONCENTRATING ON CURBING TENDENCIES IN THE ECONOMY WITH LONG-TERM ADVERSE CONSEQUENCES FOR EXPORTS. NO EXTRA BUDGETARY ALLOCATIONS HAVE BEEN GRANTED TO MINISTRIES IN RECENT MONTHS. THEY ARE CURRENTLY STUDYING THE PRODUCTION RELATIONS OF PUBLIC SECTOR CORPORATIONS, HINTING THAT THERE

WILL BE MORE RELIANCE UPON AND ENCOURAGEMENT OF PRIVATE SECTOR. THE MINISTER NOTED THAT THESE ITEMS ALL HAVE BEEN DISCUSSED IN THEIR NEGOTIATIONS WITH THE IMF, BUT THAT THEY ARE PURSUING REFORMS INDEPENDENTLY.

8. MINFIN THEN NOTED THAT DISCUSSIONS WITH IMF ARE PROTRACTED AND SOMETIMES EXASPERATING. HE NOTED SOME UNHAPPINESS ABOUT JON RANDALL'S RECENT WASHINGTON POST STORY ON THE BREAKDOWN OF SUDANESE IMF NEGOTIATIONS WHICH WAS DATELINED KHARTOUM. HE WONDERED WHETHER AFOREMENTIONED ARTICLE MIGHT HAVE BEEN INSPIRED BY IMF. DISCUSSIONS WITH IMF WILL CONTINUE, BUT SUDAN ITSELF IS OBLIGATED TO ADOPT REFORMS. AGREEMENT WITH THE FUND MIGHT REQUIRE SOME TIME.

9. ECON CHIEF THEN ASKED A SERIES OF QUESTIONS CONCERNING MAGNITUDE OF PRESENT PROBLEMS. MINFIN ACKNOWLEDGED THAT WITH CURRENT ACCELERATED DEVELOPMENT STRATEGIES THERE WOULD BE A REQUIREMENT FOR CONTINUING BOP SUPPORT FOR A NUMBER OF YEARS. HE NOTED THAT PRESENTLY FROM ALL

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PAGE 03 KHARTO 02221 02 OF 03 161213Z

SOURCES THERE WERE NOT SUFFICIENT RESOURCES AVAILABLE TO COVER THE GAP IN REQUIREMENTS FOR CURRENT ECONOMIC REQUIREMENTS, DEVELOPMENT EXPENDITURES, AND DEBT SERVICE. HE INDICATED THAT TO MEET THE MINIMUM IMPORT REQUIREMENTS TO KEEP THE ECONOMY OPERATING, THEY HAVE ALREADY ADOPTED STRINGENT MEASURES. IMPORTS HAVE BEEN RESTRICTED TO THE MOST BASIC AND STRATEGIC COMMODITIES SUCH AS PETROLEUM, BASIC FOODS SUCH AS WHEAT AND SUGAR, MEDICAL SUPPLIES AND SPARE PARTS.

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PAGE 01 KHARTO 02221 03 OF 03 161250Z
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C O N F I D E N T I A L SECTION 3 OF 3 KHARTOUM 2221

10. PRESSED FURTHER, MINFIN ACKNOWLEDGED THAT THERE WAS CURRENT REQUIREMENT FOR SOMETHING IN THE ORDER OF 400-500 MILLION DOLLARS TO CLEAR ARREARAGES BEYOND FURTHER ESTIMATED ANNUAL LIQUIDITY GAP OF 200-300 MILLION DOLLARS. IN ADDITION, AND PREFERABLY ON GRANT OR OTHER CONCESSIONARY TERMS, IF PROJECTS IN NEW DEVELOPMENT PLAN WENT FORWARD, THERE WOULD BE ANNUAL REQUIREMENT FOR FROM 300-500 MILLION DOLLARS FOR PROJECTS INCLUDED IN 6-YEAR PLAN. (PRESUMABLY, ARAB STATES AND INSTITUTIONS ARE ALREADY COMMITTED TO THESE PROJECT EXPENDITURES.) ECON CHIEF ASKED IF THESE REQUIREMENTS WERE UNDERSTOOD BY SAUDIS AND OTHER ARABS AND MINFIN SAID THEY WERE.

11.
SMINFIN THROUGHOUT THIS DISCUSSION MADE SERIES OF COMMENTS INDICATING THE POLITICAL DIFFICULTY OF SUDAN'S FOLLOWING "ARAB BREADBASKET DEVELOPMENT POLICIES." LIVING STANDARDS OF MOST SUDANESE WOULD BE MUCH BETTER IF SUDAN HAD DEVELOPED ECONOMIC PROGRAMS AIMED AT
CONFIDENTIAL

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PAGE 02 KHARTO 02221 03 OF 03 161250Z

SELF-SUFFICIENCY RATHER THAN SUPPLYING ARAB WORLD. HE SEEMED TO FEEL THAT OTHER ARABS WERE NOT SUFFICIENTLY AWARE OF DIFFICULTIES AND HARDSHIPS OF SUDAN THAT WERE INVOLVED IN CURRENT STRATEGY. HE STRESSED THE "IMPORTANCE OF POLITICAL STABILITY IN SUDAN BOTH FOR THE MIDDLE EAST AND AFRICA". ARAB STATES MUST RECOGNIZE THE PRESSING DOMESTIC POLITICAL REQUIREMENT TO GIVE THEIR POPULATION SOME CURRENT RETURN FOR THE SACRIFICES INVOLVED IN THEIR DEVELOPMENT PROGRAM.

12. THE AMBASSADOR, NOTING HIS PREVIOUS EXPERIENCE IN TURKEY, ASKED WHETHER SOME MORE EFFECTIVE MEANS CAN BE FOUND TO ENCOURAGE REPATRIATION OF EARNINGS OF SUDANESE ABROAD. THIS WAS INTERPRETED BY MINFIN AS REFERENCE TO IMF ARGUMENTS FOR DEVALUATION. MINFIN ATTACKED IMF ARGUMENT THAT THIS WAS ONLY WAY TO BRING ADDITIONAL FOREIGN EXCHANGE INTO SUDAN'S ECONOMY. HE ARGUED THAT IMF ANALYSIS ON DEVALUATION WAS

"UNFOUNDED." HE ASSERTED THAT QUESTION OF EXCHANGE RATES "NOT SACROSANCT" BUT THAT SUDAN WILL HANDLE THIS QUESTION REALISTICALLY AND AT PROPER TIME. ASKED ABOUT POLITICAL IMPLICATIONS OF DEVALUATION, MINFIN REPLIED THAT ALL OF THE REFORMS WHICH SUDAN IS CURRENTLY UNDERTAKING ARE "POLITICALLY UNPALATABLE."

13. IN CONCLUDING, AMBASSADOR ASSURED MINFIN AND MINSTATE FOR FOREIGN AFFAIRS THAT THIS CONVERSATION WOULD BE FULLY REPORTED TO WASHINGTON.

14. COMMENT: IT WAS OBVIOUS THAT QUITE AN EFFORT HAD BEEN MADE FOR SUDANESE TO MUSTER SUFFICIENT COURAGE TO MAKE THIS REPRESENTATION. INCLUDING MINSTATE FOR FOREIGN AFFAIRS DENG IN CONVERSATION WAS OBVIOUS ATTEMPT TO MAKE CONFIDENTIAL

CONFIDENTIAL

PAGE 03 KHARTO 02221 03 OF 03 161250Z

ATMOSPHERE OF MEETING AS WARM AND FRIENDLY AS POSSIBLE. SUDANESE CLEARLY ARE VERY SHY IN TALKING ABOUT THEIR FINANCIAL PROBLEMS AND ARE VERY HESITANT TO SPEAK DIRECTLY AND OFFICIALLY ABOUT THEIR FINANCIAL DEPENDENCY ON OTHER ARABS. DESPITE MINFIN'S ASSURANCES THAT OTHER ARABS UNDERSTAND SUDAN'S FINANCIAL REQUIREMENTS, WE FEEL THAT OUR ASSESSMENT IN REF C THAT THERE IS LITTLE COMMON UNDERSTANDING AMONG ARAB GOVERNMENTS IS SOUND.
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Message Attributes

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Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2680623
Secure: OPEN
Status: NATIVE
Subject: FORMAL SUDANESE GOVERNMENT REQUEST FOR BALANCE OF PAYMENTS ASSISTANCE
TAGS: EFIN, EAID, ECON, SU, US
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/bf4fc19c-c288-dd11-92da-001cc4696bcc
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